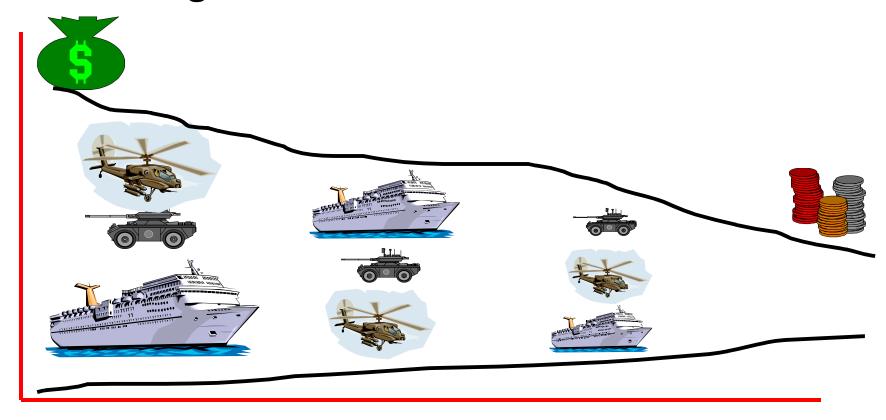
Re-engineering contractual methods to face budget constraints

First statement ...

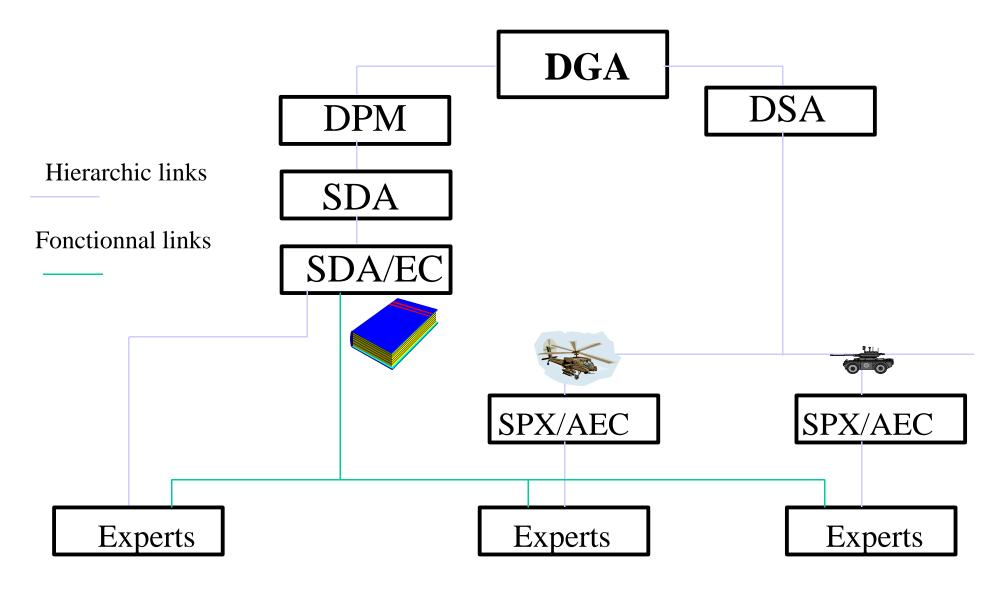
... Each Year resources are decreasing



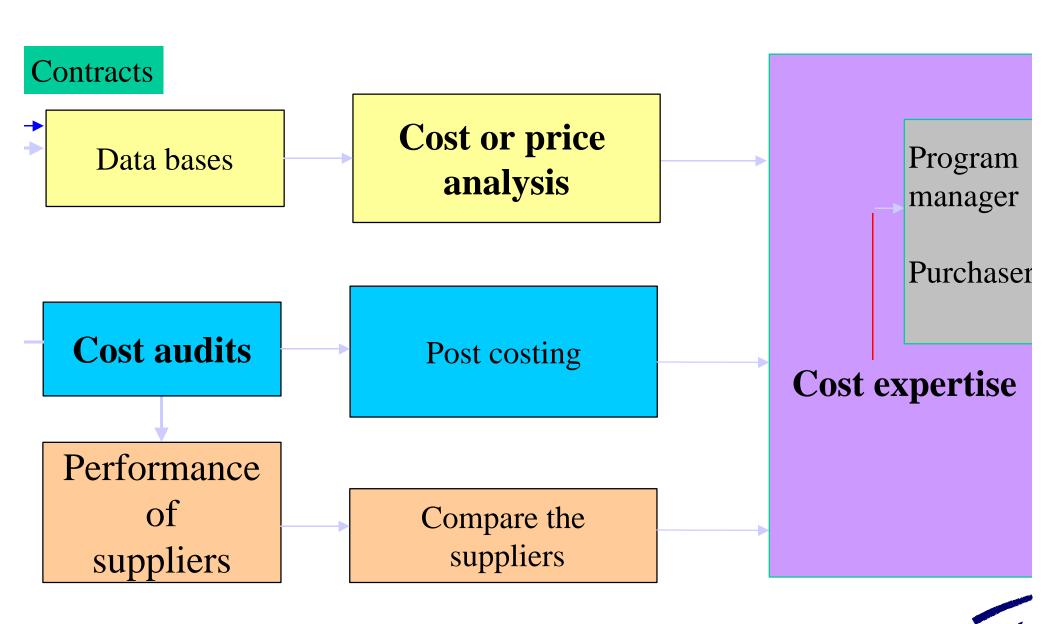
... While inflation increases



Cost expertise



Cost "Expertise" organization



ASMP-A (AGMR-I)

- **Opportunity**: Development of a new missile
- Method: Estimate of development and production costs by comparison with ASMP and more recent "classic" missiles
- **Duration**: less than 2 months
- Use: negotiation of the development phase at the end of year 2000

MIDS

Opportunity: Request of the DGA

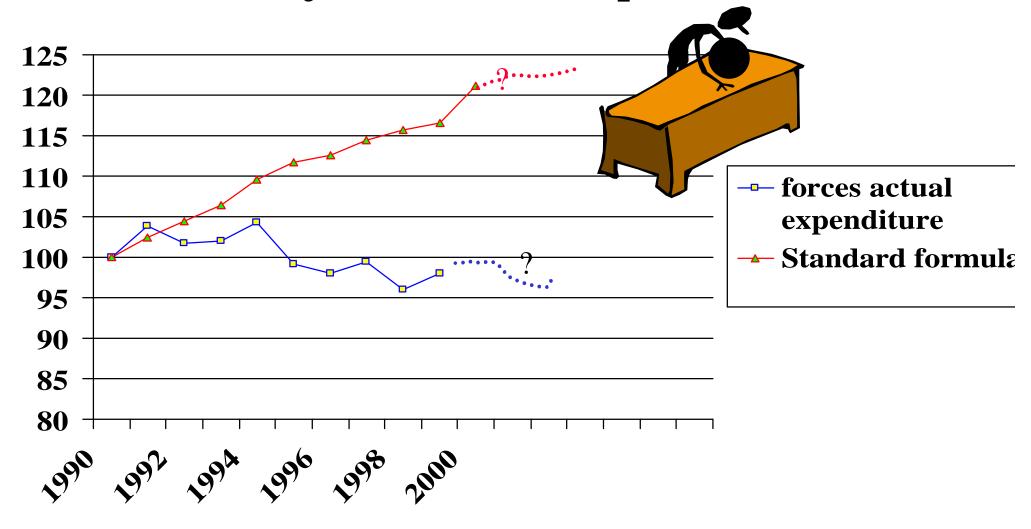
Program at the end of its development phase

Method: Modelisation of production cost of MIDS terminal

<u>Duration</u>: from April 1999 to August 1999

Use: negotiation of the PI, and production cost

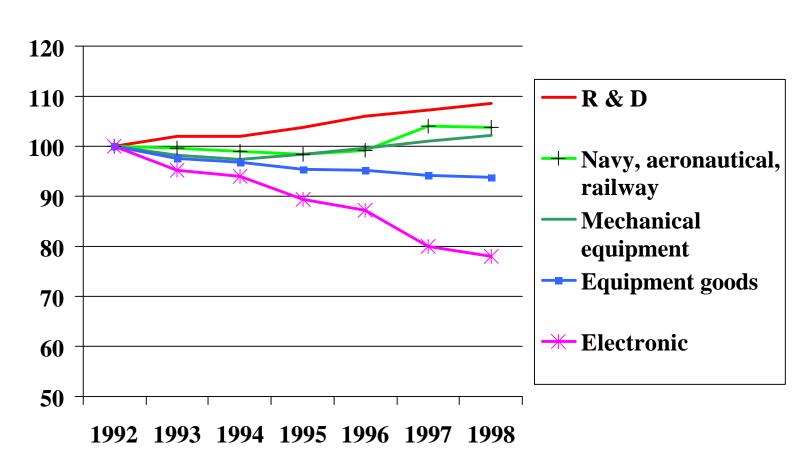
Evolution of resources compared with VOP



Formula 0,125 + 0,565 * S /So + 0,24 * PsdB / PSdBo+ 0,07 *Alu/Aluo

Adjustable price

Evolution of the output indices



Distribution between the different types of price in 2000

Form of the price		Firm	Non firm	
Contract allotment ≤ 3 years		s 94 %	6 %	
Contract allotment > 3 years		s 68 %	32 %	
Détail	Adjustable		12 %	,
of non firm	Fixed + threshold Fixed without threshold and		00 70	
allotments	non variable element = 12,5		5% 2 %	

Out of 350 contracts subject to examination by the CSM for a total amount of about 50 BF (7,7 B\$)



Second statement

PRICE = COST + PROFIT

Sole source

COST = MARKET PRICE - PROFIT Concurrence

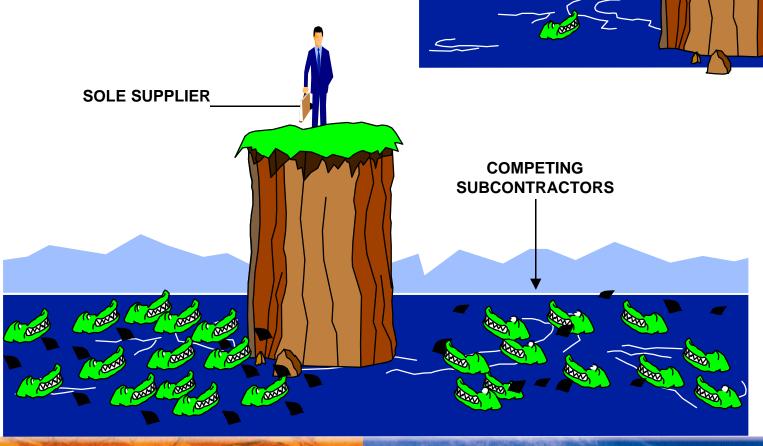
Where is the most incentive system for costs reduction?

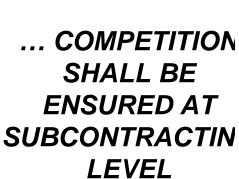


Competition shall be the rule ...

... WHENEVER POSSIBLE ...

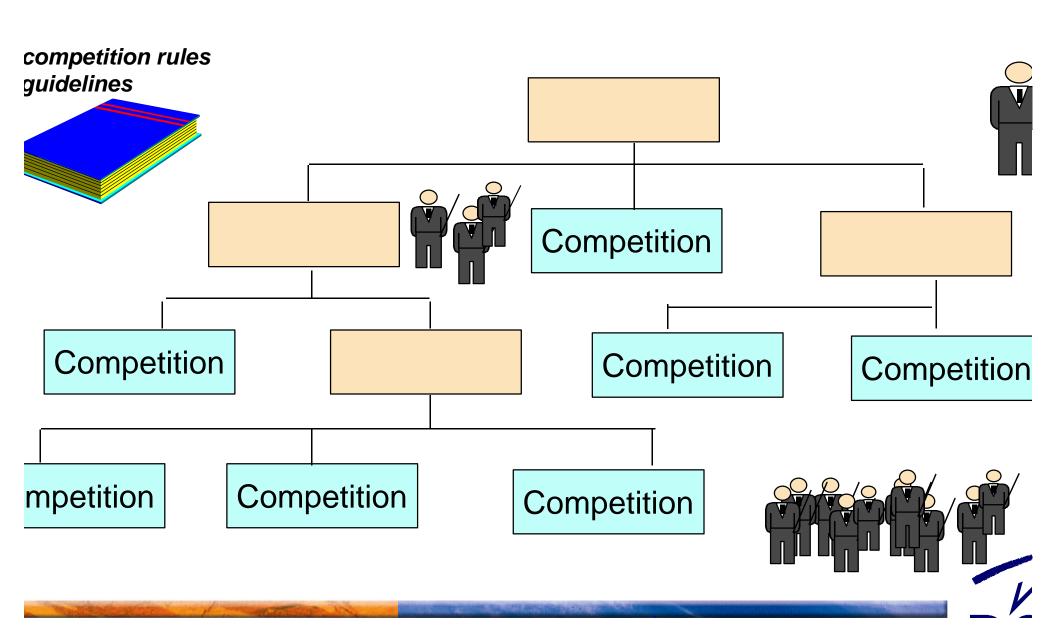
...BUT WHEN ONLY ONE SUPPLIER EXISTS ...







Procurement plan



Multiyear global contracts...

TO PROVIDE BETTER VISIBILITY

THE PRIME CONTRACTOR FOR

LONG TERM

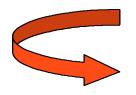
SUPPLY, SUBCONTRACTORS...)













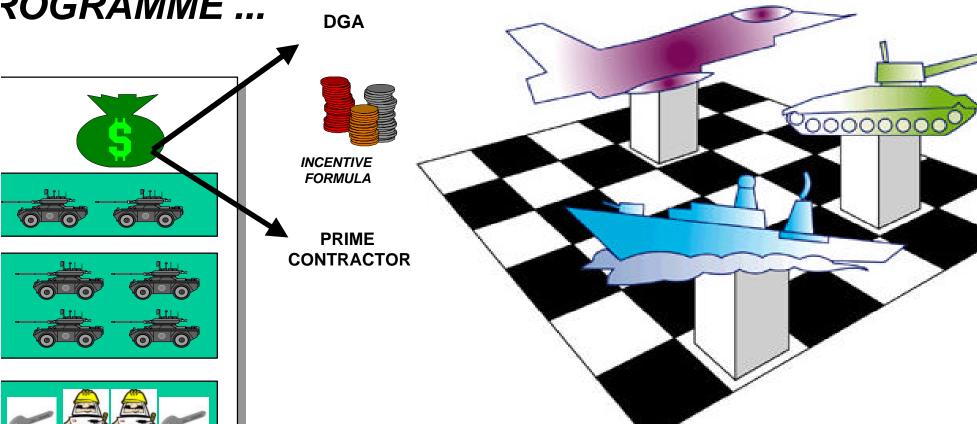
...AND SOURCE OF IMPORTANT COST REDUCTION FOR DGA...

10 % IN AVERAGE



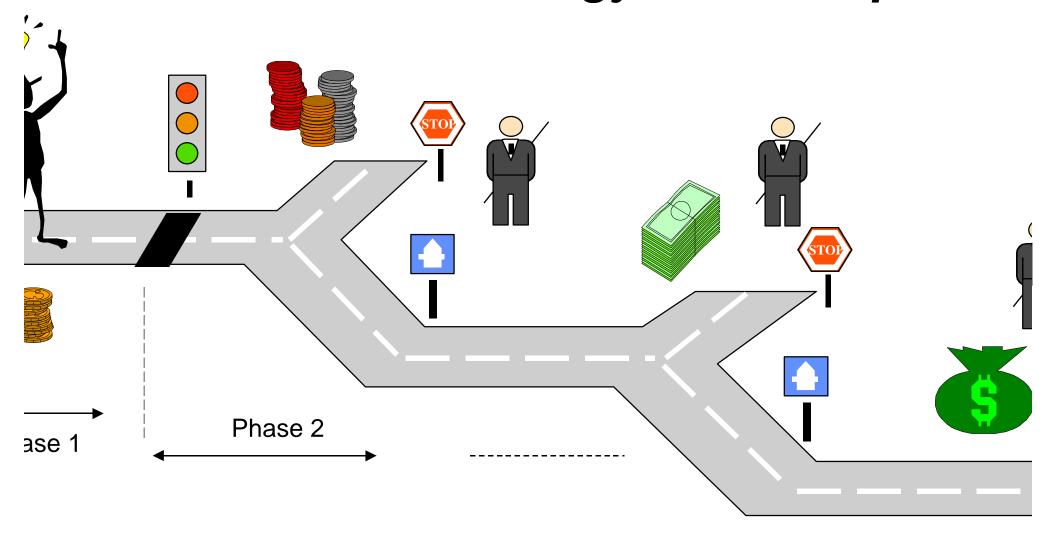
Global contracting ...

FOR EACH ROGRAMME ...



... AND, WHENEVER POSSIBLE, BETWEEN SEVERAL PROGRAMMES

Procurement strategy in two steps ...



AND INCENTIVES FOR STOPPING AS SOON AS INITIA GOAL APPEARS UNREACHABLE

Firm price

• At the request of the DGA, since 1997, where in France, price inflation has started to be curbed; the use of firm price contracts for contracts less than three years duration has become widespread.

Many contracts exceeding that period are also firm price contracts.

• Therefore, the acceptance of price predicted inflation is part of the negotiation.

Fixed price

The use of a formula including a non variable element (0.125) loesn't allow to take advantage of appreciable gains (which could be assimilated to productivity gains with an inflation of 10 % per /ear)

=> Increase the non variable element

The use of a threshold for release the VOP formula allows to reduce the mechanical incidence of rises and limits the inflationist effect of the classic formula.

=> Negociate a threshold for release of the VOP formula (0,5 à 1 %)

A neutralization of the formula during the first three years allows to mix firm price and fixed price.

